

# Audit Report

## Monroe County Community Mental Health Authority

October 1, 2002 – September 30, 2003



Office of Audit  
Fenton Regional Office  
July 2008



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI  
DIRECTOR

July 18, 2008

Gregory Lane, Chairperson, Board of Directors  
Monroe County Community Mental Health Authority  
P.O. Box 726  
1001 South Raisinville Rd.  
Monroe, MI 48161-0726

and

Jane S. Terwilliger, LMSW, Chief Executive Officer  
Monroe County Community Mental Health Authority  
P.O. Box 726  
1001 South Raisinville Rd.  
Monroe, MI 48161-0726

and

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building – 7<sup>th</sup> Floor  
Lansing, MI 48913

**CERTIFIED MAIL**

7008 0150 0002 3498 0708

Dear Mr. Lane, Ms. Terwilliger, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Monroe County Community Mental Health Authority for the period October 1, 2002 through September 30, 2003.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in Attachment 9.3.2.1 of the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The

request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and MDCH will implement the audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:

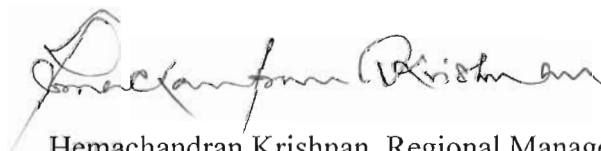
Administrative Tribunal & Appeals Division  
Michigan Department of Community Health  
1033 S. Washington  
P.O. Box 30763  
Lansing, Michigan 48909

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Halverson, Manager  
Revenue Operations Section  
Bureau of Finance (Accounting Division)  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in dark ink, appearing to read "Hemachandran Krishnan", is written over a light blue rectangular background.

Hemachandran Krishnan, Regional Manager  
Fenton Regional Office  
Office of Audit

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## **DESCRIPTION OF AGENCY**

The Monroe County Community Mental Health Authority (MCCMHA) was established in 1974 and operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. MCCMHA is subject to oversight by the Michigan Department of Community Health (MDCH).

The MCCMHA provides outpatient, partial day, residential, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers.

MCCMHA's administrative office is located in the City of Monroe. The MCCMHA board is comprised of 12 members who reside in Monroe County and are appointed for three-year terms.

## **FUNDING METHODOLOGY**

MCCMHA contracted with the Michigan Department of Community Health under a Managed Mental Health Supports and Services Contract (MMHSSC) for FYE 2003. This provided State General Funds (GF) for providing mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code. MCCMHA received approximately \$5.1 million of GF funding in FYE 2003. MCCMHA reported their GF expenditures related to the MMHSSC to MDCH on a Financial Status Report (FSR) and a settlement with MDCH occurred after the fiscal year end.

Effective October 1, 2002, the Washtenaw Community Health Organization (WCHO) formed a Prepaid Inpatient Health Plan called the CMH Partnership of Southeast Michigan (PIHP). Included in this partnership are MCCMHA and two other community mental health organizations. The PIHP contracted with MDCH for Medicaid funding under a Managed Specialty Supports and Services Contract (MSSSC). MDCH provided

both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to the PIHP. The PIHP passed the Medicaid funds on to the affiliated community mental health organizations under a separate “Medicaid Subcontracting Agreement” (MSA) based on their individual PEPM determinations. Under the MSA, MCCMHA is also subject to the terms and conditions of the MSSSC, Mental Health Code, and applicable state and federal laws. MCCMHA received approximately \$18.3 million of Medicaid funding from the PIHP. MCCMHA reported their Medicaid expenditures related to the MSA to the PIHP, and a settlement occurred between MCCMHA and the PIHP. The PIHP then combined all affiliates’ reported Medicaid expenditures and reported them on a Financial Status Report (FSR) to MDCH, and a settlement between the PIHP and MDCH occurred after the fiscal year end. MCCMHA also reported their Medicaid expenditures related to the MSA as an Earned Contract on their FSR with MDCH for information purposes only as no settlement occurred between MCCMHA and MDCH relating to the Medicaid funds.

MCCMHA also received special and/or designated funds, fee for services funds, and MICHild capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for the program by capitated payments based on a Per Eligible Per Month methodology for covered services.

## **PURPOSE AND AUDIT OBJECTIVES**

The purpose of the review was to assess the agency’s performance relative to the requirements and best practice guidelines set forth in the contract; to determine whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to determine MDCH’s and PIHP’s share of costs in accordance with applicable requirements and agreements.

## **Objectives**

### **1. CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE**

To assess MCCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC and MSSSC requirements and best practices guidelines.

### **2. FINANCIAL REPORTING**

To assess MCCMHA's effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

### **3. MDCH'S AND PIHP'S SHARE OF COSTS AND BALANCE DUE**

To determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to or from MCCMHA.

## **SCOPE AND METHODOLOGY**

We examined MCCMHA's records and activities for the period October 1, 2002 through September 30, 2003. We completed an internal control questionnaire to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed MCCMHA's executive, financial, and administrative staff. We reviewed MCCMHA policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Financial Status Report (FSR) in compliance with the MSA, MMHSSC and MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from September 2004 to January 2005.



# CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

## CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

**Objective 1:** To assess MCCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC and MSSSC requirements and best practices guidelines.

**Conclusion:** MCCMHA was not always effective and efficient in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC, MSSSC requirements and best practice guidelines. Our assessment disclosed exceptions with respect to internal control (finding 1), contract management (finding 2), accounting for personal or consumer funds (finding 3), and financial reporting (findings 4-15).

### **Finding**

#### **1. Internal Control Weaknesses**

MCCMHA did not have adequate internal control procedures in place to safeguard its assets and ensure accurate financial reporting in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA had several internal control weaknesses. These encompass the following areas: missing support for increase in condominium fee, missing time sheets for the on-site contractors, and inclusion of costs in the general ledger that had no supporting documentation.

MCCMHA was unable to locate documentation to support the validity of increasing the condominium fee. Three of the consumers live in the condominium. The lease agreement for FYE 2003 stated that the condominium fee is \$102 per month. The invoices showed that the condominium fee was increased to \$124 per month. However, MCCMHA could not provide the revised

agreement to verify the new fee. Due to the immateriality of the amount, no financial adjustment is recommended. However, MCCMHA is responsible to maintain a system that retains and safeguards all records supporting financial transactions and provision of services for at least seven years. This is required by the MSA and MMHSSC. Failure to do this could result in significant payments back to MDCH or other entities.

Review of the equipment leases account revealed that MCCMHA paid \$408 for personal property tax for one of the equipment leases; however, no lease agreement was available for review for FYE 2003. MCCMHA provided a lease agreement that ended on November 30, 2001. Due to the immateriality of the amount, no financial adjustment is recommended.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, "...B. The accounting procedures and internal financial controls of the parties shall conform to generally accepted accounting principles in order that the costs and expenditures allowed by this Agreement can be readily ascertained and verified...." Section XVIII, Program and Financial Books, Documents, and Records, Audits, Reviews, Program/Service Evaluations, states in part, "A. ...Said program, clinical, and contract/financial records and supporting documentation must be retained by each of the parties and be available for such audit, review or evaluation purposes for seven (7) years after completion of this Agreement...."

The MMHSSC, Section 6.6.1 states, in pertinent part,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the Financial Status Report....

In a review of one of the contractors, Quality Software Associates (QSA), the contractor did not provide any time sheets for the contractor's work on MCCMHA's projects. QSA provides consulting services on-site for MCCMHA's computer system, and these contractors are required to submit the time sheets to verify the hours worked.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, "...E. Each party shall maintain payroll records and other time keeping records, including any employee time allocation studies and any cost center(s) distribution formula for costs of employees and subcontractors sufficient to document the provision of services required under this Agreement...."

Additionally, based on the review of the lease agreements of certain buildings, MCCMHA overstated their general ledger by \$518 compared to the lease agreements and the total payments made. Thus, MCCMHA included costs in the general ledger that had no supporting documentation. The financial reporting issue is addressed in greater detail in finding #12.

The Mental Health Code, Section 330.1242 states, in pertinent part, "The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program...." Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program.

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part, "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria...c. Be authorized or not prohibited under State or local laws or regulations...j. Be adequately documented."

## **Recommendation**

We recommend that MCCMHA review its internal control weaknesses, and adopt policies and procedures that will strengthen its internal control and ensure accurate financial reporting in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.

## **Finding**

### **2. Lack of Clearly Defined Contract Terms for Subcontractors**

MCCMHA did not have controls in place to ensure that contracts with subcontractors were properly executed and contained clearly defined payment terms in compliance with the MSA, MMHSSC and Code of Federal Regulation requirements.

MCCMHA did not have contracts in place for the legal services that MCCMHA subcontracted in our audit period. There was no contract available to verify the rate for legal services provided by the contractor.

The MSA, Section IX, CSSN Services and Responsibilities, states, in pertinent part, "...C. The CSSN agrees that any such subcontract shall: (1) be in writing and include a full specification of the subcontracted services; (2) contain a provision stating that this Agreement is incorporated by reference into the subcontract and made a part thereof...."

The MMHSSC, Section 6.4.1, Subcontracting, states, in pertinent part,

The CMHSP may subcontract for the provision of any of the services specified in this contract including contracts for administrative, financial management and data processing. The CMHSP shall be held solely and fully responsible to execute all provisions of this contract, whether or not said provisions are directly pursued by the CMHSP or pursued by the CMHSP through a sub-contract vendor. The CMHSP shall ensure that all

sub-contract arrangements clearly specify the type of services being purchased....Sub-contracts entered into by the CMHSP shall address the following...G. Payment arrangements (including coordination of benefits, ability to pay determination, etc.) and solvency requirements.

Federal regulation 42 CFR 434.6 provides general requirements for all contracts and subcontracts. Section 434.6(b) states, in pertinent part, “All subcontracts must be in writing and fulfill the requirements of this part that are appropriate to the service or activity delegated under the subcontract.” Section 434.6(c) states, in pertinent part, “No subcontract terminates the legal responsibility of the contractor to the agency to assure that all activities under the contract are carried out.”

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that contracts are in place for all subcontract arrangements, and that they monitor the contractors’ compliance with the terms of the contracts; and the MSA, MMHSSC and Code of Federal Regulation requirements.

### **Finding**

#### **3. Weakness in Accounting for Personal or Consumer Funds**

MCCMHA did not implement and monitor effective accounting policies to properly account for resident funds at the residential providers under contract in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

The homes, the agency, or MCCMHA did not properly monitor the resident funds at certain residential providers. The home manager at Geiger Home did not reconcile the bank statements and the residential fund forms regularly.

Additionally, Geiger and Ninth Homes made math errors on the residential fund forms.

The Licensing Rules for Adult Foster Care Small Group Homes, Section 400.14315, Handling of Resident Funds and Valuables, states, in part, “(13) A licensee shall provide a complete accounting, on an annual basis and upon request, of all resident funds and valuables which are held in trust and in bank accounts or which are paid to the home, to the resident, or to his or her designated representative.”

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to monitor and reconcile the consumer funds regularly in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

## **FINANCIAL REPORTING**

**Objective 2:** To assess MCCMHA’s effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

**Conclusion:** MCCMHA did not accurately report its financial activity on the Financial Status Report, as required by the MSA, MMHSSC and MSSSC. We found exceptions related to: Lack of documentation to support the allocation method for expense accounts (finding 4), improper reporting of prior and subsequent years’ expenditures (finding 5), inaccurate reporting of subcontractors’ costs (finding 6), improper reporting of mileage reimbursement (finding 7), over/under payment to group homes in Specialized Residential settings (finding 8), improper reporting of unauthorized empty beds in

Specialized Residential settings (finding 9), improper reporting of auditing expense (finding 10), improper reporting of minor equipment (finding 11), overpayment of certain building leases (finding 12), unallowable late fees (finding 13), incorrect allocation of janitorial cleaning expenses (finding 14), and lack of documentation to support payroll allocation (finding 15).

#### **Finding**

##### **4. Lack of Documentation to Support Allocation Method for Expense Accounts**

MCCMHA did not retain documentation to support the method used to allocate the expense accounts among various cost centers in violation of the MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA provided the details on the allocation methods that were used to allocate the expense accounts for a subsequent year. However, the documentation for the allocation method that was used in the audited period was not available.

The MSA, Section XVIII, Program and Financial Books, Documents, and Records, Audits, Reviews, Program/Service Evaluations, states, in pertinent part, “A. ...Said program, clinical, and contract/financial records and supporting documentation must be retained by each of the parties and be available for such audit, review or evaluation purposes for seven (7) years after completion of this Agreement....”

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report....

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part,

...3. Allocable costs. a. A cost is allocable to particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs....

Although our review did not identify a material misallocation of costs, MCCMHA needs to adhere to the above requirements to ensure that costs are properly identified and charged to the appropriate cost center. Failure to properly identify and allocate costs appropriately between cost centers could affect the agency's ability to satisfy the terms of the contract and could affect future funding from MDCH. Due to the immateriality, no audit adjustment was recommended.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that the method used in allocating the expense accounts to different cost centers comply with the requirements of OMB Circular A-87. We also recommend MCCMHA retain documentation supporting the method of allocating the expense accounts to different cost centers in compliance with the contract requirements of the MSA and MMHSSC.

### **Finding**

#### **5. Improper Reporting of Prior and Subsequent Years' Expenditures**

MCCMHA improperly reported prior and subsequent fiscal years' expenditures on the FYE 2003 FSR in violation of the MSA and MMHSSC requirements.

MCCMHA reported a total of \$4,540 on the FYE 2003 FSR for the following prior fiscal year expenditures:



\$1,149 for training services that took place in FYE 2002

\$545 for 2001 personal property taxes that should have been paid during FYE 2002

\$2,709 for an insurance premium that covered 07/02-09/02

\$137 for an insurance premium that covered 04/02-09/02

MCCMHA also reported a total of \$26,774 on the FYE 2003 FSR for the following subsequent years' expenditures:

\$944 for an insurance premium that covered 10/03-01/04

\$1,539 for an insurance premium that covered 10/03-07/04

\$824 for an insurance premium that covered 10/03-10/04

\$1,209 for an insurance premium that covered 10/03-03/04

\$210 for an insurance premium that covered 10/03-11/03

\$1,017 for an insurance premium that covered 10/03-04/04

\$508 for an insurance premium that covered 10/03-04/04

\$365 for an insurance premium that covered 10/03-06/04

\$20,158 for a Michigan Municipal Risk Authority payment that covered 10/03-03/04

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting...shall be the methodology implemented by each party for the purposes of this Agreement.

The MMHSSC, Attachment C 7.8.1, Section 1.3, Financial Status Report states in part, "...all reported revenue and expenditure information is required to be

provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods....”

The accrual basis of accounting would require that the \$4,540 applicable to the period prior to FYE 2003 be treated as expenses in FYE 2002 and not in FYE 2003. At the same time, the \$26,774 applicable to the period after FYE 2003 should be treated as prepaid expenses and not expensed in FYE 2003.

The expenses stated above are allowable expenses. MCCMHA reported the expenses in wrong years. The MDCH does not intend to re-open the cost settlements in the prior or subsequent years to allow these expenses. Therefore, no financial adjustment will be made in FYE 9/30/2003.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that costs of services are recorded in the year the services were provided in compliance with the MSA and MMHSSC requirements.

### **Finding**

#### **6. Inaccurate Reporting of Subcontractors’ Costs**

MCCMHA did not accurately report the subcontractor costs for Community Living Supports, Vocational Assistance (Day Programs) and Quality Software Associates in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA overpaid one of its contractors for Community Living Supports, Progressive Residential Services, Inc. (PRS) by \$3,673. Additionally, MCCMHA overpaid one of its contractors for Vocational Assistance (Day Program), Home, Inc., by \$22,600. The total hours billed by PRS and Home, Inc., and paid by

MCCMHA were higher than the actual hours per the Service Activity Reports or Authorized Staff Hours approved by MCCMHA.

Furthermore, MCCMHA overpaid one of its outside consultants, Quality Software Associates (QSA) by \$414. The contracted value agreed by both QSA and MCCMHA for FYE 2003 was \$545,376. However, the total expenditures related to QSA services for FYE 2003 was \$545,790. Overpayments are not allowable under OMB Circular A-87 because they are not necessary and reasonable.

Article 4.2, Compensation/Contract Payments in the Community Living Supports and Vocational Assistance (Day Programs) contract states, “Authorized Services: Services must be pre-authorized. Only those services that are included in the individual consumer’s PCP will be considered for authorization. Authorized services are specific to each individual consumer and shall conform to the PCP.” PCP is Person-Centered Planning.

Article 4.7, Compensation/Contract Payments in the Community Living Supports and Vocational Assistance (Day Programs) contract states, “Processing and Payment of Claims: Payments shall be made for each pre-authorized service at the respective rate authorized by the MCCMHA.”

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting...shall be the methodology implemented by each party for the purposes of this Agreement.

The MMHSSC, Section 6.6.1, states in part, “...The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported

on the financial status report, except for a) local funds...b) selected items of allowable cost – agreed upon by the CMHSP and MDCH...c) earned revenue...d) other grants or awards....”

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards....”

Audit adjustments removing \$3,673, \$22,600 and \$414 from the reported expenditures are shown on Schedules A and B. These adjustments impact the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. These adjustments also impact the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure accurate reporting of actual and authorized expenses incurred for its contractors in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

### **Finding**

#### **7. Improper Reporting of Mileage Reimbursement**

MCCMHA reported mileage reimbursements that were not authorized by contract on the FYE 2003 FSR in violation of the MSA and MMHSSC requirements.

MCCMHA paid QSA certain mileage reimbursements for a total of \$752 in FYE 2003. However, there was no mileage provision in the contract agreed and signed by MCCMHA and QSA that stated that MCCMHA would have to reimburse QSA for the mileage separately.

The MSA, Section IX, CSSN Services and Responsibilities, states, in pertinent part, "...C. The CSSN agrees that any such subcontract shall: (1) be in writing and include a full specification of the subcontracted services; (2) contain a provision stating that this Agreement is incorporated by reference into the subcontract and made a part thereof...."

The MMHSSC, Section 6.4.1 under Provider Contracts states, in part,

...The CMHSP shall be held solely and fully responsible to execute all provisions of this contract, whether or not said provisions are directly pursued by the CMHSP or pursued by the CMHSP through a sub-contract vendor....Sub-contracts entered into by the CMHSP shall address the following...G. Payment arrangements (including coordination of benefits, ability to pay determination, etc.) and solvency requirements....

Audit adjustments removing \$752 from the reported expenditures are shown on Schedules A and B. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

### **Recommendation**

We recommend MCCMHA implement policies and procedures to ensure that reimbursements made to contractors agree with contract provisions in compliance with the MSA and MMHSSC requirements.

## **Finding**

### **8. Over/Under Payment to Group Homes in Specialized Residential Settings**

MCCMHA did not accurately report or properly manage the contracts with various fee-for-service providers in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA overpaid some of the group homes in the Specialized Residential contracts by a total of \$47,609. MCCMHA paid higher per-diem rates than those authorized in the contracts for some of these homes. The following group homes were overpaid:

Borg	\$ 10
Geiger	4,396
Harbor	35
Lewis	42
Grove	29,433
N. Monroe	1,364
Roberts	11,550
Woodview	779

MCCMHA also underpaid some of the group homes by a total of \$8,432. The following group homes were underpaid:

Binkley	\$7,246
Second St.	3
Granby	9
Ninth	1,174

This resulted in a net overpayment of \$39,177.

Article 4.7, Compensation/Contract Payments in the Specialized Residential contract states, “Processing and Payment of Claims: Payments shall be made for each pre-authorized service at the respective rate authorized by the MCCMHA.”

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting...shall be the methodology implemented by each party for the purposes of this Agreement.

The MMHSSC, Section 6.6.1, states in part,

...The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report, except for a) local funds...b) selected items of allowable cost – agreed upon by the CMHSP and MDCH...c) earned revenue...d) other grants or awards....

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards....”

Subsequent to the audit fieldwork, MCCMHA amended contracts to resolve this issue. Therefore, no financial adjustment is being made.

### **Recommendation**

We recommend that MCCMHA implement policies, procedures and contract terms to identify and disallow unauthorized costs. We also recommend that MCCMHA adopt policies and procedures to ensure subcontractors are paid the contracted per diem rate in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

## **Finding**

### **9. Improper Reporting of Unauthorized Empty Beds in Specialized Residential Settings**

MCCMHA paid subcontractors for billings of empty beds that are not covered by the contracts in violation with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA paid the subcontractors for empty beds for the following group homes:

Borg	\$103,028
Second St.	50,134
Geiger	73,223
Granby	18,747
Lewis	3,732

This resulted in payments of \$248,864 for empty beds.

Article 4.2, Compensation/Contract Payments in the Specialized Residential contract states, “Authorized Services: Services must be pre-authorized. Only those services that are included in the individual consumer’s PCP will be considered for authorization. Authorized services are specific to each individual consumer and shall conform to the PCP.”

Article 4.7 states, “Processing and Payment of Claims: Payments shall be made for each pre-authorized service at the respective rate authorized by the MCCMHA. If a service has not been authorized, the claim will be denied.”

Per the above contract terms, an empty bed means that no consumer is authorized or receives any service from the group home. Thus, payments for empty beds are not authorized.



The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting...shall be the methodology implemented by each party for the purposes of this Agreement.

The MMHSSC, Section 6.6.1, states in part, "...The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report, except for a) local funds...b) selected items of allowable cost – agreed upon by the CMHSP and MDCH...c) earned revenue...d) other grants or awards ..."

OMB Circular A-87, Attachment A, Section C.1.c, states, "...Be authorized or not prohibited under State or local laws or regulations."

Subsequent to the audit fieldwork, MCCMHA amended contracts to resolve this issue. Therefore, no financial adjustment is being made.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure only authorized bills are paid in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.

### **Finding**

#### **10. Improper Reporting of Auditing Expense**

MCCMHA did not accurately report the auditing fee for its independent CPA's annual auditing service in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA accrued \$16,417 for the auditing fee to conduct the FYE 2002-2003 financial statement audit. The invoice, however, showed that the actual fee submitted by the Independent CPA to provide the auditing service was \$15,000. Therefore, the excess amount of \$1,417 is not allowable.

The Mental Health Code, Section 330.1242 states, in part, “The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program....” Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, “...B. The accounting procedures and internal financial controls of the parties shall conform to generally accepted accounting principles in order that the costs and expenditures allowed by this Agreement can be readily ascertained and verified.”

Section D states, “Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87....”

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

The MMHSSC, Section 7.5, Operating Practices, states, in pertinent part, “The CMHSP shall adhere to Generally Accepted Accounting Principles....The CMHSP program accounting procedures must comply with: A. Generally Accepted Accounting Principles for Governmental Units...C. OMB Circular A-87....”

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria...c. Be authorized or not prohibited under State or local laws or regulations...j. Be adequately documented.”

Audit adjustments removing \$1,417 from the reported expenditures are shown on Schedules A and B. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that accruals of expenses are made based on actual invoices for services provided in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.

### **Finding**

#### **11. Improper Reporting of Minor Equipment**

MCCMHA did not accurately report the purchase of minor equipment in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA purchased a color copier for \$2,132 and recorded the asset in the Capital Outlay Other with the intention of depreciating this asset. However, MCCMHA never included the depreciation expense for this asset in the FSR. MCCMHA's depreciation policy states that items over \$5,000 will be depreciated in accordance with generally accepted accounting principles and OMB Circular A-87. Since the cost of the color copier is less than \$5,000, we are allowing the total cost of \$2,132 to be included as an expense in the FSR.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, "D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87...."

The MMHSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 19, Equipment and Other Capital Expenditures, states, in part: "...d. Items of equipment with an acquisition cost of less than \$5,000 are considered to be supplies and are allowable as direct costs."

Audit adjustments increasing reported expenditures by \$2,132 are shown on Schedules A and B. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total net amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

## **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure compliance with the requirements of MSA, MMHSSC and OMB Circular A-87 in reporting purchases of minor equipment.

## **Finding**

### **12. Overpayment of Certain Building Leases**

MCCMHA did not accurately report the building lease payments in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.

Based on the review of the lease agreements and payments, MCCMHA overstated their general ledger by \$518 compared to the lease agreements and the total payments made. Thus, MCCMHA included costs in the general ledger that had no supporting documentation. Due to the immateriality of the amount, no financial adjustment is recommended.

The Mental Health Code, Section 330.1242 states, in pertinent part, “The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program....” Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, “...B. The accounting procedures and internal financial controls of the parties shall conform to generally accepted accounting principles in order that the costs and expenditures allowed by this Agreement can be readily ascertained and verified.”

Section D states, “Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87....”

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

The MMHSSC, Section 7.5, Operating Practices, states, in pertinent part, “The CMHSP shall adhere to Generally Accepted Accounting Principles....The CMHSP program accounting procedures must comply with: A. Generally Accepted Accounting Principles for Governmental Units...C. OMB Circular A-87....”

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria...c. Be authorized or not prohibited under State or local laws or regulations...j. Be adequately documented.”

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that the lease payments reported on the FSR are supported by the lease agreements and that all costs are documented and supported in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87.

## **Finding**

### **13. Unallowable Late Fees**

MCCMHA reported a late fee charge as expense on the FSR in violation of the OMB Circular A-87 requirements.

MCCMHA did not pay the monthly car lease on a timely basis, which caused MCCMHA to incur a \$138 late fee charge.

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part,

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards....2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

We have determined that the late fee charge was not a necessary and reasonable cost, and is therefore not an allowable cost under the OMB Circular A-87 provisions. Therefore, this expense should be removed from the FSR.

Audit adjustments removing \$138 from the reported expenditures are shown on Schedules A and B. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

## **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that the bills are paid timely to avoid late fee charges that are unallowable expenditures. We also recommend that MCCMHA adopt policies and procedures to ensure that all financial transactions are made in compliance with the OMB Circular A-87 requirements.

## **Finding**

### **14. Incorrect Allocation of Janitorial Cleaning Expenses**

MCCMHA did not properly allocate janitorial cleaning expenses on its FSR based on the services provided in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA had a contract with a cleaning company for three building sites. The three sites included Raisinville Road, Gateway Building and 9 South Monroe Street. The monthly payment as stated in the contract was \$5,830, which was broken down to \$3,535 for Raisinville, \$1,515 for Gateway and \$780 for Monroe. Each site was home to certain programs or cost centers, with some programs using multiple sites.

MCCMHA did not allocate the monthly payment to the cost centers that use these three sites. MCCMHA allocated the total amount of \$5,830 to the Raisinville site only. Therefore, the programs that use the Gateway building and the Monroe building did not get any allocation for their portions of the janitorial cleaning expenses.

Based on this finding, we recalculated the allocation for all programs that occupied the three building sites. The recalculation resulted in a reclassification between the two categories; Earned Contracts and GF Categorical and Formula Services Total, which netted out to zero on the FSR. Our recalculation showed



that MCCMHA understated line D 3 (Medicaid Managed Care-Affiliate) by \$2,959 and line L 1 (100% GF) by \$253. At the same time, MCCMHA overstated line D 2 (Other Earned Contract) by \$29 and line L 4 (90/10 GF) by \$3,183.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, “D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87....”

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part,

...3. Allocable costs. a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. b. All activities which benefit from the governmental unit’s indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs....

MCCMHA needs to adhere to the above requirements to ensure that costs are being properly identified and charged to the proper program. Failure to properly identify and allocate costs appropriately between programs could affect the agency’s ability to satisfy the terms of the contract and could affect future funding from the department.

Audit adjustments showing the reclassification to add \$2,930 to Earned Contracts Total (line D) and remove \$2,930 from GF Categorical and Formula Services Total (line L) of the reported expenditures are shown on Schedules A and B. These adjustments impact the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. These adjustments also impact the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from MCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that costs are allocated in accordance with the benefits received by each activity or program in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

### **Finding**

#### **15. Lack of Documentation to Support Payroll Allocation**

MCCMHA did not adequately document the method used to allocate payroll costs between the various cost centers in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

MCCMHA used various methods to allocate wages between cost centers. These methods ranged from full-time equivalents derived from budgeted figures, costs permitted by various grant awards and the supervisors' estimates. None of these methods followed OMB Circular A-87 which requires the use of certifications or personnel activity reports, or another appropriate "substitute system." In addition, none of these methods were documented in writing.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, "...E. Each party shall maintain payroll records and other time keeping records, including any employee time allocation studies and any cost center(s) distribution formula for costs of employees and subcontractors sufficient to document the provision of services required under this Agreement."

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

OMB Circular A-87, Attachment B, Section 11, Compensation for Personnel Services, Section h. sets forth standards regarding time distribution that are in addition to the standards for payroll documentation.

Section h. (3), states,

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Section h. (4) states,

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meet the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal

award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

Section h. (5) states, in pertinent part,

Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes....

Although our review did not identify a material misallocation of costs, MCCMHA needs to adhere to the above requirements to ensure that costs are properly identified and charged to the appropriate cost center. Failure to properly identify and allocate costs appropriately between cost centers could affect the agency's ability to satisfy the terms of the contract and could affect future funding from MDCH. An audit adjustment is not made due to immateriality.

### **Recommendation**

We recommend that MCCMHA implement policies and procedures to ensure that methods used in allocating wages are in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

## **MDCH’S AND PIHP’S SHARE OF COSTS AND BALANCE DUE**

**Objective 3:** To determine MDCH’s and PIHP’s share of costs in accordance with applicable requirements and agreements, and any balance due to or from MCCMHA.

**Conclusion:** MDCH’s obligation (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children’s Waiver funds) is \$5,007,795. MCCMHA owes MDCH a balance of \$4,072, after considering advances, unpaid state service costs, and the prior settlement as shown on Schedule C. MCCMHA also owes the PIHP a balance of \$22,314, as shown on Schedule A Expenditures, Section D 3.

Schedule A  
Financial Status Report  
October 1, 2002 through September 30, 2003

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ -	\$ -	\$ -
B. Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
C. Earned Contracts (non DCH) Total	\$18,406,237	\$ -	\$18,406,237
1 CMH to CMH	-	-	-
2 Other	154,711	-	154,711
3 Medicaid Managed Care - CMHSP Affiliate	18,251,526	-	18,251,526
D. MI Child - Mental Health	\$ 16,205	\$ -	\$ 16,205
E. Local Funding Total	\$1,171,160	\$ -	\$ 1,171,160
1 Special Fund Account (226(a))	75,391	-	75,391
2 Title XX Replacement	8,874	-	8,874
3 All Other	1,086,895	-	1,086,895
4 Affiliate Local Contribution to State Medicaid Match	-	-	-
F. Reserve Balances - Planned for use	\$ 253,312	\$ -	\$ 253,312
1 Carryforward -Section 226(2)(b)(c)	253,312	-	253,312
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/loss Insurance	-	-	-
G. DCH Earned Contracts Total	\$ 314,153	\$ -	\$ 314,153
1 PASARR	63,279	-	63,279
2 Block Grant for CMH Services	185,792	-	185,792
3 DD Council Grants	-	-	-
4 PATH/Homeless	52,975	-	52,975
5 Prevention	-	-	-
6 Aging	-	-	-
7 HUD Shelter Plus Care	-	-	-
8 Other DCH Earned Contracts	12,107	-	12,107

Schedule A  
Financial Status Report  
October 1, 2002 through September 30, 2003

REVENUES		Reported Amount	Audit Adjustments	Adjusted Amount
H.	Gross Medicaid Total	\$ 86,866	\$ -	\$ 86,866
1	Medicaid - Specialty Managed Care	-	-	-
2	Medicaid - Children's Waiver Total	86,866	-	86,866
I.	Reimbursements Total	\$ 145,605	\$ -	\$ 145,605
1	1st and 3rd Party	-	-	-
2	SSI	145,605	-	145,605
J.	State General Funds Total	\$ 5,232,597	\$ (92,905)	\$ 5,139,692
1	CMH Operations	4,467,489	(92,905)	4,374,584
2	Categorical Funding	28,797	-	28,797
3	State Services Base	736,311	-	736,311
4	DCH Risk Authorization	-	-	-
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	\$ 25,626,135	\$ (92,905)	\$25,533,230
L.	Estimated MDCH Obligation (H+J)	\$ 5,319,463	\$ (92,905)	\$ 5,226,558

Schedule A  
Financial Status Report  
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$24,839,823	\$ (26,862)	\$24,812,961
B. Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C. Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
D. Earned Contracts (Non MDCH) Total	\$18,406,237	\$ (22,346)	\$18,383,891
1 CMH to CMH	-	-	-
2 Other Earned Contracts	154,711	(32)	154,679
3 Medicaid Managed Care - Affiliate	18,251,526	(22,314)	18,229,212
E. MI Child - Mental Health	\$ 16,205	\$ -	\$ 16,205
F. Local Total	\$ 552,406	\$ -	\$ 552,406
1 Local Cost for State Provided Services	68,437	-	68,437
2 Other Not Used as Local Match	-	-	-
3 Local Fund Medicaid	483,969	-	483,969
4 Affiliate Local Contribution to State Medicaid Match	-	-	-
G. Expenditures From Reserve Balances	\$ 253,312	\$ -	\$ 253,312
1 Carry forward - Sec 226(2)(b)(c)	253,312	-	253,312
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/Loss Ins.	-	-	-



Schedule A  
Financial Status Report  
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H. MDCH Earned Contracts Total	\$ 314,153	\$ -	\$ 314,153
1 PASARR	63,279	-	63,279
2 Block Grant for CMH Services	185,792	-	185,792
3 DD Council Grants	-	-	-
4 PATH/Homeless	52,975	-	52,975
5 Prevention	-	-	-
6 Aging	-	-	-
7 HUD Shelter Plus Care	-	-	-
8 Other MDCH Earned Contracts	12,107	-	12,107
I. Matchable Services (A-(B through H))	\$ 5,297,510	\$ (4,516)	\$ 5,292,994
J. Payments to MDCH for State Services	\$ 445,580	\$ -	\$ 445,580
K. Specialty Managed Care Service Total	\$ 145,605	\$ -	\$ 145,605
1 100% MDCH Matchable Services	145,605	-	145,605
2 All SSI and Other Reimbursements	145,605	-	145,605
3 Net MDCH Share for 100 % Services (K1-K2)	-	-	-
4 90/10 Matchable Services	-	-	-
5 Medicaid Federal Share	-	-	-
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	-	-	-
L. GF Categorical and Formula Services Total	\$ 4,619,437	\$ (4,516)	\$ 4,614,921
1 100% MDCH Matchable Services	1,532,485	(73)	1,532,412
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	1,532,485	(73)	1,532,412
4 90/10 Matchable Services	3,086,952	(4,443)	3,082,509
5 Reimbursements	-	-	-
6 10% Local Match Funds	308,695	(444)	308,251
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	2,778,257	(3,999)	2,774,258
8 Total MDCH GF and Formula (L3+L7)	4,310,742	(4,072)	4,306,670

Schedule A  
Financial Status Report  
October 1, 2002 through September 30, 2003

EXPENDITURES		Reported Amount	Audit Adjustments	Adjusted Amount
M.	Children's Waiver - Total	\$ 86,888	\$ -	\$ 86,888
1	Medicaid	86,888	-	86,888
2	Other Reimbursements	-	-	-
N.	Unobligated Spending Authority Total	\$ -	\$ -	\$ -
1	DCH Risk Authorization	-	-	-
2	All Other	-	-	-
O.	Total Local Match Funds (F+K7+L6)	\$ 861,101	\$ (444)	\$ 860,657
P.	Total MDCH Share of Expenditures (J+K9+L8+M)	\$ 4,843,210	\$ (4,072)	\$ 4,839,138

Schedule B  
Explanation of Audit Adjustments  
October 1, 2002 through September 30, 2003

**State General Funds Total Revenues** **(\$92,905)**  
(\$92,905) to correct misreported DD Center Placements,  
per cost settlement

**Gross Total Expenditures** **(\$26,862)**  
(\$3,673) to disallow the inaccurate reporting of subcontractors'  
costs for Community Living Supports (finding 6)

(\$22,600) to disallow the inaccurate reporting of subcontractors'  
costs for Vocational Assistance (finding 6)

(\$414) to disallow the overpayment of outside consultant, Quality  
Software Associates (finding 6)

(\$752) to disallow the improper reporting of mileage  
reimbursement (finding 7)

(\$1,417) to disallow the improper reporting of auditing expense  
(finding 10)

\$2,132 to allow the reporting of minor equipment  
(finding 11)

(\$138) to disallow the unallowable late fees (finding 13)

**Earned Contracts (Non MDCH) Total** **(\$22,346)**  
(\$3,552) to disallow the inaccurate reporting of subcontractors'  
costs for Community Living Supports (finding 6)

(\$21,260) to disallow the inaccurate reporting of subcontractors'  
costs for Vocational Assistance (finding 6)

(\$326) to disallow the overpayment of outside consultant, Quality  
Software Associates (finding 6)

(\$591) to disallow the improper reporting of mileage  
reimbursement (finding 7)

Schedule B  
Explanation of Audit Adjustments  
October 1, 2002 through September 30, 2003

(\$1,115) to disallow the improper reporting of auditing expense  
(finding 10)

\$1,677 to allow the reporting of minor equipment  
(finding 11)

(\$109) to disallow the unallowable late fees (finding 13)

\$2,930 to properly allocate janitorial cleaning  
expenses (finding 14)

**Matchable Services**

**(\$4,516)**

(\$121) to disallow the inaccurate reporting of subcontractors'  
costs for Community Living Supports (finding 6)

(\$1,340) to disallow the inaccurate reporting of subcontractors  
costs for Vocational Assistance (finding 6)

(\$88) to disallow the overpayment of outside consultant, Quality  
Software Associates (finding 6)

(\$161) to disallow the improper reporting of mileage  
reimbursement (finding 7)

(\$302) to disallow the improper reporting of auditing expense  
(finding 10)

\$455 to allow the reporting of minor equipment  
(finding 11)

(\$29) to disallow the unallowable late fees (finding 13)

(\$2,930) to disallow the incorrect allocation of janitorial cleaning  
expenses (finding 14)

**GF Categorical and Formula Services Total**

**(\$4,516)**

(\$121) to disallow the inaccurate reporting of subcontractors'  
costs for Community Living Supports (finding 6)

Schedule B  
Explanation of Audit Adjustments  
October 1, 2002 through September 30, 2003

(\$1,340) to disallow the inaccurate reporting of subcontractors costs for Vocational Assistance (finding 6)

(\$88) to disallow the overpayment of outside consultant, Quality Software Associates (finding 6)

(\$161) to disallow the improper reporting of mileage reimbursement (finding 7)

(\$302) to disallow the improper reporting of auditing expense (finding 10)

\$455 to allow the reporting of minor equipment (finding 11)

(\$29) to disallow the unallowable late fees (finding 13)

(\$2,930) to disallow the incorrect allocation of janitorial cleaning expenses (finding 14)

**100% Matchable Services**

**(\$73)**

(\$283) to disallow the inaccurate reporting of subcontractors' costs for Vocational Assistance (finding 6)

(\$31) to disallow the overpayment of outside consultant, Quality Software Associates (finding 6)

(\$56) to disallow the improper reporting of mileage reimbursement (finding 7)

(\$105) to disallow the improper reporting of auditing expense (finding 10)

\$159 to allow the reporting of minor equipment (finding 11)

(\$10) to disallow the unallowable late fees (finding 13)

\$253 to properly allocate janitorial cleaning expenses (finding 14)

Schedule B  
Explanation of Audit Adjustments  
October 1, 2002 through September 30, 2003

<b>90/10 Matchable Services</b>	<b>(\$4,443)</b>
(\$121) to disallow the inaccurate reporting of subcontractors' costs for Community Living Supports (finding 6)	
(\$1,057) to disallow the inaccurate reporting of subcontractors' costs for Vocational Assistance (finding 6)	
(\$58) to disallow the overpayment of outside consultant, Quality Software Associates (finding 6)	
(\$104) to disallow the improper reporting of mileage reimbursement (finding 7)	
(\$197) to disallow the improper reporting of auditing expense (finding 10)	
\$296 to allow the reporting of minor equipment (finding 11)	
(\$19) to disallow the unallowable late fees (finding 13)	
(\$3,183) to disallow the incorrect allocation of janitorial cleaning expenses (finding 14)	

Schedule C  
Contract Reconciliation and Cash Settlement Summary  
October 1, 2002 through September 30, 2003

I.	State/General Fund Formula Funding		MDCH
A.	GF/Formula - State and Community Managed Programs	<u>Authorization</u>	<u>Expense</u>
1	State Managed Services	\$ 736,311	\$ 445,580
2	MDCH Risk Authorization - MDCH Approved for Use	-	-
3	Community Managed Services	<u>4,403,381</u>	<u>4,306,670</u>
4	Total State and Community Programs - GF/Formula Funding	\$ 5,139,692	\$4,752,250
B.	Maintenance of Effort - Summary	\$ -	\$ -
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	\$ 28,797	\$ 28,797
2	Multicultural Services	-	-
3	Permanency Planning Grant	<u>-</u>	<u>-</u>
4	Total Categorical, Special and Designated Funds	\$ 28,797	\$ 28,797
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$ 5,110,895	\$4,723,453
			<u>Formula Funds</u>
II.	Shared Risk Arrangement		
A.	Operating Budget - Exclude MOE and Categorical Funding		\$5,110,895
B.	MDCH Share - Exclude MOE and Categorical Funding		\$4,723,453
C.	Surplus (Deficit)		<u>\$ 387,442</u>
D.	Redirect Freed Up General Funds		\$ -
E.	Shared Risk - Surplus (Deficit)		\$ 387,442
F.	Risk Band - 5% of Operating Budget (A x 5%)		\$ 255,545

Schedule C  
Contract Reconciliation and Cash Settlement Summary  
October 1, 2002 through September 30, 2003

	MDCH Share	GF Carry Forward	Redirected Savings	Total	Grand Total
III. Cash Settlement					
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	\$ -	\$ -	\$ -	\$ -	
2 GF/Formula Funding (Net of Categorical and MOE)	4,723,453	255,545	-	4,978,998	
3 MOE Specialty Managed Care MDCH Obligation	-	-	-	-	
4 MOE GF/Formula Funding MDCH Obligation	-	-	-	-	
5 Categorical - MDCH Obligation	28,797	-	-	28,797	
6 Total - MDCH Obligation					\$ 5,007,795
B. Advances - Prepayments					
1 Specialized Managed Care – Prepayments Through 9/30/03			\$ -		
2 Specialized Managed Care - FY 99 Prepayments after 9/30/03			-		
3 Subtotal - Specialized Managed Care				\$ -	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				4,374,584	
5 Purchase of Services				736,311	
6 Categorical Funding				28,797	
7 Total Prepayments					\$ 5,139,692
C. Balance Due MDCH					\$ 131,897
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				\$ 445,580	
Actual Payments to MDCH				448,680	
Balance Due MDCH					\$ (3,100)
E. Net Balance Due MDCH					\$ 128,797
Prior Settlement					(124,725)
Balance Due to MDCH					\$ 4,072



## CORRECTIVE ACTION PLAN

<b>Finding No.</b>	1
<b>Reference:</b>	Page 4
<b>Finding:</b>	<p><b>Internal Control Weaknesses</b></p> <p>MCCMHA did not have adequate internal control procedures in place to safeguard its assets and ensure accurate financial reporting in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Review internal control weaknesses, and adopt policies and procedures that will strengthen internal control and ensure accurate financial reporting in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA review its internal control weaknesses, and adopt policies and procedures that will strengthen its internal control and ensure accurate financial reporting in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Corrective Action:</b>	<p>Due to the recent high rate of turnover in the finance area at MCCMH, three members of the Finance Staff from MCCMHA will attend the MACMHB Training on Improving Outcomes, Finance &amp; Quality through Integrated Information XXI. At that training session MCCMHA will begin a review of the documents the Mental Health Code, MSA, MMHCCS and OMB Circular A-87 require to ensure that policies and procedures are in compliance. After the training, MCCMHA will have a retreat with the Finance Staff and review policies and procedures and recommend changes to ensure compliance and strengthen Internal Control.</p>

**Anticipated Completion Date:** July 31, 2008.

**DCH Response:** None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	2
<b>Reference:</b>	Page 7
<b>Finding:</b>	<p><b>Lack of Clearly Defined Contract Terms for Subcontractors</b></p> <p>MCCMHA did not have controls in place to ensure that contracts with subcontractors were properly executed and contained clearly defined payment terms in compliance with the MSA, MMHSSC and Code of Federal Regulations.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that contracts are in place for all subcontract arrangements, and monitor the contracts to ensure contractors' compliance with the terms of the contracts; and the MSA, MMHSSC and Code of Federal Regulation requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that contracts are in place for all subcontract arrangements, and that they monitor the contractors' compliance with the terms of the contracts; and the MSA, MMHSSC and Code of Federal Regulation requirements.</p>
<b>Corrective Action:</b>	<p>MCCMHA will review subcontract agreements to ensure that they are properly executed and include defined payment terms particularly that attorney agreements and policy/procedures are to be followed.</p>
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## CORRECTIVE ACTION PLAN

<b>Finding No.</b>	3
<b>Reference:</b>	Page 8
<b>Finding:</b>	<p><b>Weakness in Accounting for Personal or Consumer Funds</b></p> <p>MCCMHA did not implement and monitor effective accounting policies to properly account for resident funds at the residential providers under contract in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to monitor and reconcile the consumer funds regularly in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to monitor and reconcile the consumer funds regularly in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).</p>
<b>Corrective Action:</b>	<p>The agency no longer holds personal or consumer funds as of the closing of their group homes.</p>
<b>Anticipated Completion Date:</b>	Not applicable.

**DCH Response:**

MCCMHA concurred with the MDCH finding; however, MCCMHA's corrective action did not address the issue cited in the finding. MCCMHA contracts with group homes to provide services for the consumers; and, thus, MCCMHA is responsible for monitoring the consumers' personal funds.

## CORRECTIVE ACTION PLAN

<b>Finding No.</b>	4
<b>Reference:</b>	Page 10
<b>Finding:</b>	<p><b>Lack of Documentation to Support Allocation Method for Expense Accounts</b></p> <p>MCCMHA did not retain the documentation to support the method used to allocate the expense accounts among various cost centers in violation of the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that the method used in allocating the expense accounts to different cost centers comply with the requirements of OMB Circular A-87. Also, retain documentation supporting the method of allocating the expense accounts to different cost centers in compliance with the contract requirements of the MSA and MMHSSC.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that the method used in allocating the expense accounts to different cost centers comply with the requirements of OMB Circular A-87, and also that documentation is retained supporting the method of allocating expense accounts to different cost centers in compliance with contract requirements of the MSA and MMHSSC. The predecessor CFO believes that the wrong dates were used on the schedule and that the worksheets were for the time frame audited.</p>
<b>Corrective Action:</b>	<p>The Agency retains documentation supporting the method of allocating expense accounts to different cost centers in compliance with contract requirements.</p>

**Anticipated Completion Date:** Completed.

**DCH Response:** None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	5
<b>Reference:</b>	Page 11
<b>Finding:</b>	<p><b>Improper Reporting of Prior and Subsequent Years' Expenditures</b></p> <p>MCCMHA improperly reported prior and subsequent fiscal years' expenditures on the FYE 2003 FSR in violation of the MSA and MMHSSC requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that costs of services are recorded in the year the services were provided in compliance with the MSA and MMHSSC requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that the cost of services are recorded in the year the services were provided in compliance with MSA and MMHSSC requirements. Depending on when these payments were known, a reasonableness factor for accruals should govern also. This spreads over multiple years and would be an allowable expense for the next year. Given the lapse of time it would roll to the next year and be included and have little or no impact.</p>
<b>Corrective Action:</b>	<p>MCCMHA will review the policy and procedures with current financial staff to ensure compliance with costs of services being recorded in the year they were provided and accruals are booked when probable and measurable in the year the service was provided.</p>
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.



## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	6
<b>Reference:</b>	Page 13
<b>Finding:</b>	<p><b>Inaccurate Reporting of Subcontractors' Costs</b></p> <p>MCCMHA did not accurately report the subcontractor costs for Community Living Supports, Vocational Assistance (Day Programs) and Quality Software Associates in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure accurate reporting of actual and authorized expenses incurred for its contractors in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure accurate reporting of actual authorized expenses incurred for its contractors in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Corrective Action:</b>	<p>MCCMHA has implemented an encompass system that requires authorizations built from a fee schedule which ties to the agreement/contract in encompass and it must agree with provider claims entered. For billing purposes, the claims entered in encompass are reviewed and denied if they do not tie to the authorization through the adjudication process.</p>
<b>Anticipated Completion Date:</b>	Completed.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	7
<b>Reference:</b>	Page 15
<b>Finding:</b>	<b>Improper Reporting of Mileage Reimbursement</b>  MCCMHA reported mileage reimbursements that were not authorized by contract on the FYE 2003 FSR in violation of the MSA and MMHSSC requirements.
<b>Recommendation:</b>	Implement policies and procedures to ensure that reimbursements made to contractors agree with contract provisions in compliance with the MSA and MMHSSC requirements.
<b>Comments:</b>	MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that reimbursements made to contractors agree with contract provisions in compliance with the MSA and MMHSSC requirements. The finding is for \$752 and considered immaterial.
<b>Corrective Action:</b>	Network Management Committee at the affiliation level has standardized boilerplate contracts that are used to provide standard detail. MCCMHA will review with their accounts payable clerk the need to check that mileage reimbursements are covered in the terms of the contract before authorizing it for payment.
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	8
<b>Reference:</b>	Page 17
<b>Finding:</b>	<p><b>Over/Under Payment to Group Homes in Specialized Residential Settings</b></p> <p>MCCMHA did not accurately report or properly manage the contracts with various fee-for-service providers in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies, procedures and contract terms to identify and disallow unauthorized costs. Also, adopt policies and procedures to ensure subcontractors are paid the contracted per diem rate in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA disagreed with the financial adjustments included in the Preliminary Analysis, but recognized the need to amend the contract language.</p>
<b>Corrective Action:</b>	<p>MCCMHA revised the 02-03 contracts and submitted them for their Board approval on May 28, 2008.</p>
<b>Anticipated Completion Date:</b>	Completed.
<b>DCH Response:</b>	<p>Subsequent to the audit fieldwork, contracts were amended to ensure payment amounts complied with contract terms. However, MDCH again recommends that MCCMHA implement policies, procedures and contract terms to identify and disallow unauthorized costs. Also, MCCMHA should adopt policies and procedures to ensure subcontractors are paid the contracted per diem rate in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	9
<b>Reference:</b>	Page 19
<b>Finding:</b>	<p><b>Improper Reporting of Unauthorized Empty Beds in Specialized Residential Settings</b></p> <p>MCCMHA paid subcontractors for billings of empty beds that are not covered by the contracts in violation with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure only authorized bills are paid in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA disagreed with the financial adjustments included in the Preliminary Analysis, but recognized the need to amend the contract language.</p>
<b>Corrective Action:</b>	<p>MCCMHA revised the 02-03 contracts and submitted them for their Board approval on May 28, 2008.</p>
<b>Anticipated Completion Date:</b>	Completed.
<b>DCH Response:</b>	<p>Subsequent to the audit fieldwork, contracts were amended to ensure payment amounts complied with contract terms. However, MDCH again recommends that MCCMHA implement policies and procedures to ensure only authorized bills are paid in compliance with its own contract, MSA, MMHSSC and OMB Circular A-87 requirements.</p>

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	10
<b>Reference:</b>	Page 20
<b>Finding:</b>	<p><b>Improper Reporting of Auditing Expense</b></p> <p>MCCMHA did not accurately report the auditing fee for its independent CPA's annual auditing service in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that accruals of expenses are made based on actual invoices for services provided in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that accruals of expenses are made based on actual services provided in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements. MCCMHA considers the adjustment of \$1,417 to be immaterial.</p>
<b>Corrective Action:</b>	<p>MCCMHA will review accrual policies and procedures with appropriate accounting staff to ensure that they are in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87.</p>
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	11
<b>Reference:</b>	Page 22
<b>Finding:</b>	<b>Improper Reporting of Minor Equipment</b>  MCCMHA did not accurately report the purchase of minor equipment in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.
<b>Recommendation:</b>	Implement policies and procedures to ensure compliance with the requirements of MSA, MMHSSC and OMB Circular A-87 in reporting purchases of minor equipment.
<b>Comments:</b>	MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure compliance with the requirements of MSA, MMHSSC and OMB Circular A-87 in reporting purchases of minor equipment.
<b>Corrective Action:</b>	MCCMHA will review the Fixed Asset and Depreciation Policy with accounting staff to ensure compliance that equipment of \$5,000 or greater is capitalized and depreciated.
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	12
<b>Reference:</b>	Page 24
<b>Finding:</b>	<p><b>Overpayment of Certain Building Leases</b></p> <p>MCCMHA did not accurately report the building lease payments in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that the lease payments reported on the FSR are supported by the lease agreements and that all costs are documented and supported in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that the lease payments reported on the FSR are supported by the lease agreements and that all costs are documented and supported in compliance with the Mental Health Code, MSA, MMHSSC and OMB Circular A-87.</p>
<b>Corrective Action:</b>	<p>Policies and procedures relating to the Building Leases will be reviewed with appropriate accounting staff.</p>
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	13
<b>Reference:</b>	Page 26
<b>Finding:</b>	<b>Unallowable Late Fees</b>  MCCMHA reported a late fee charge as expense on the FSR in violation of the OMB Circular A-87 requirements.
<b>Recommendation:</b>	Implement policies and procedures to ensure that the bills are paid timely to avoid late fee charges that are unallowable expenditures. Also, adopt policies and procedures to ensure that all financial transactions are made in compliance with the OMB Circular A-87 requirements.
<b>Comments:</b>	MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that unallowable expenses are not included on the FSR and all financial transactions are in compliance with OMB Circular A-87 requirements. MCCMHA considers the financial adjustment of \$138 to be immaterial.
<b>Corrective Action:</b>	MCCMHA will review unallowable expenses and how they are handled to ensure future compliance with OMB Circular A-87 requirements.
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.



## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	14
<b>Reference:</b>	Page 27
<b>Finding:</b>	<p><b>Incorrect Allocation of Janitorial Cleaning Expenses</b></p> <p>MCCMHA did not properly allocate janitorial cleaning expenses on its FSR based on the services provided in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that costs are allocated in accordance with the benefits received by each activity or program in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that costs are allocated in accordance with the benefits received by each activity or program in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Corrective Action:</b>	<p>MCCMHA will review policies and procedures to ensure that costs allocated in the future are in compliance with the MSA, MMHSSC and OMB Circular A-87.</p>
<b>Anticipated Completion Date:</b>	July 31, 2008.
<b>DCH Response:</b>	None.

## **CORRECTIVE ACTION PLAN**

<b>Finding No.</b>	15
<b>Reference:</b>	Page 29
<b>Finding:</b>	<p><b>Lack of Documentation to Support Payroll Allocation</b></p> <p>MCCMHA did not adequately document the method used to allocate payroll costs between the various cost centers in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Recommendation:</b>	<p>Implement policies and procedures to ensure that methods used in allocating wages are in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Comments:</b>	<p>MCCMHA agrees with the finding and recommendation that MCCMHA implement policies and procedures to ensure that methods used in allocating wages are in compliance with MSA, MMHSSC and OMB Circular A-87 requirements.</p>
<b>Corrective Action:</b>	<p>MCCMHA is in the process of reviewing staff time spent in various Business Units (Cost Centers) and developing a procedure for documentation. For those working 100% in a particular program MCCMHA will implement a procedure to obtain certifications from staff benchmarking within the affiliation.</p>
<b>Anticipated Completion Date:</b>	August 31, 2008.
<b>DCH Response:</b>	None.